



## **Design Elements for Regional Allowance Auctions under the Regional Greenhouse Gas Initiative**

The Regional Greenhouse Gas Initiative, or RGGI, is an agreement among the Governors of ten Northeastern and Mid-Atlantic states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island and Vermont) to reduce greenhouse gas emissions from power plants. The RGGI states (participating states) have committed to cap and then reduce the amount of carbon dioxide (CO<sub>2</sub>) that certain power plants are allowed to emit, limiting the region's total contribution to atmospheric greenhouse gas levels. The participating states have agreed to implement RGGI through a regional cap-and-trade program whereby the participating states anticipate auctioning nearly the entire annual regional emissions budget, which initially is approximately 188 million short tons of CO<sub>2</sub>. Each ton of CO<sub>2</sub> will constitute an "allowance."

The participating states have agreed to participate in uniform regional auctions for the allowances that each state will be offering for sale. The initial auction is currently planned for September 10, 2008 with a second auction scheduled for December 17, 2008. In conducting regional auctions, the participating states have come to agreement on the following design elements:

**Auction Structure and Format:** Allowances will be made available for sale on a quarterly basis in lot sizes of 1,000 allowances. The initial auction will offer allowances through a single-round, uniform-price, sealed-bid auction format. While the goal is to maintain a consistent auction format, flexibility will be retained to transition to a multiple-round, ascending-price auction format if necessary to address evolving market conditions.

**Allowance Sale Schedule:** Allowances will be identified with a vintage corresponding to the allowance's respective allocation year.<sup>1</sup> All allowances made available for auction by states, for a respective compliance period, will be offered for sale prior to the end of that compliance period. Future allowance vintages will be made available for sale in a quantity up to 50-percent of their respective annual allocation, and such offerings may be for allowances extending up to four allocation years into the future.

**Participation:** All market participants will be eligible to participate in the initial auction, provided they meet applicable qualification requirements, which will include provision of financial security. Flexibility will be retained to limit participant eligibility in subsequent auctions. Auction rules will establish a total limit for the number of allowances that

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<sup>1</sup> The RGGI Model Rule defines "allocation year" as a calendar year for which the respective regulatory agency allocates or awards CO<sub>2</sub> allowances pursuant to Subparts XX-5 and XX-10 of the Model Rule. The allocation year is the first year a CO<sub>2</sub> allowance or a CO<sub>2</sub> offset allowance can be used to demonstrate compliance. The allocation year of each CO<sub>2</sub> allowance is reflected in the unique identification number given to the allowance pursuant to subdivision XX-6.4(c) of the Model Rule.

entities (e.g., an organization and its affiliates and/or agents) may purchase in a single auction, equivalent to 25-percent of the allowances offered for sale in any single auction.

**Reserve Price:** A reserve price of \$1.86 per allowance will apply to the first auction.<sup>2</sup> After the first auction, a reserve price will be in effect that is the higher of \$1.86 per allowance, as adjusted annually from 2009 onward based on the Consumer Price Index, or 80-percent of the current market price<sup>3</sup> of the particular RGGI allowance vintage being auctioned. A reserve price based on the current market price will only be used if representatives from participating states determine that there are sufficient, reliable market data available to establish a valid current market price. The reserve price will be made known to prospective auction participants prior to each auction.

**Unsold Allowances:** Any unsold allowances will be made available for sale in future auctions in which a reserve price based on the current market price is being used. In 2012, as part of the first program review envisioned in the December 2005 RGGI Memorandum of Understanding, a decision will be made by the participating states as to whether to retire any unsold allowances from the first compliance period, or to offer these allowances for sale in subsequent auctions during the second compliance period.

**Notice of Auctions:** A public notice of auction will be provided at least 45 days prior to each auction. Such notification will be posted on a publicly available RGGI auction web site and will be made available by states in accordance with any applicable state rules, regulations and/or administrative procedures.

Each auction notice will provide at a minimum: the date, time, and location of the auction, the categories of eligible bidders, any requirements established for qualified participants, the quantity of allowances to be auctioned, and all other relevant information and procedures necessary for prospective bidders to participate in such auction.

**Monitoring:** The participating states will retain a professional independent market monitor to monitor auctions and subsequent market activity. The independent monitor will observe the conduct of the auction qualification process and the conduct of the auction itself. Based on such monitoring, the independent monitor will provide the participating states with a timely report of whether the auction was conducted in accordance with the regulations established by participating states and the noticed procedures and requirements that apply to qualified auction participants.

**Auction Results:** Upon approval by the participating states of the auction outcome and upon payment in full by successful bidders to the respective participating states, each state shall transfer the corresponding CO<sub>2</sub> allowances to each successful bidder's

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<sup>2</sup> This value is 80 percent of ICF International's modeled 2009 allowance price of \$2.32, as represented in 2009 dollars.

<sup>3</sup> The current market price of a RGGI allowance is defined as the volume-weighted average of transaction prices reported to the Participating States or their agents, and taking into account prices as reported publicly through reputable sources, including prices known from previous auctions.

applicable account in the CO<sub>2</sub> allowance tracking system. States will retain full regulatory authority for transferring allowances from their respective state accounts to winning bidders, contingent on approval of auction results and financial settlement.

Within a reasonable period of time following each auction, the participating states shall publish on the RGGI auction website the auction clearing price and the total amount of allowances sold in such auction.

*Notice: This is a deliberative document and does not represent a final determination on the part of any participating state, state agency or authority, whether or not such participating state, state agency or authority is currently engaged in legislative or rule-making processes. In particular, any participating state, state agency or authority currently engaged in the legislative or rule-making processes and currently in the required public comment period, will, according to the applicable laws and rules, consider all public comments prior to final determination of any legislative or rule-making action.*